BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
CHESAPEAKE UTILITIES CORPORATION	)	PSC DOCKET NO. 07-186
FOR AN INCREASE IN ITS NATURAL GAS	)	
RATES AND SERVICES AND FOR CERTAIN	)	
OTHER CHANGES TO ITS NATURAL GAS	)	
TARIFF (FILED JULY 6, 2007)	)	

DIRECT TESTIMONY
OF
BRIAN KALCIC
ON BEHALF OF
COMMISSION STAFF

DECEMBER 14, 2007

Table of Contents

Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Delaware Public Service Commission Staff ("PSC Staff").

Q. What is the subject of your testimony?

A. The PSC Staff requested that I review various rate structure proposals submitted on behalf of Chesapeake Utilities Corporation ("Chesapeake" or "Company"), and develop an appropriate rate design that would recover the PSC Staff witness Ralph Smith's recommended revenue requirement decrease of $693,245.

Q. How is your testimony organized?

My direct testimony is organized as follows. Section I of my testimony reviews the Company's proposed Expanded Transportation Program. Section II examines Chesapeake's proposal to modify its existing rate classes. Section III discusses PSC

Staff's recommended change to Chesapeake's cost-of-service methodology. Section IV presents PSC Staff's class revenue allocation and rate design. Section V discusses Chesapeake's proposed Margin Sharing mechanism. Section VI reviews the Company's proposed conservation programs. Section VII discusses the Company's proposed Miscellaneous Service charges. Finally, Section VIII comments on Chesapeake's proposed tariff revisions.

Q. Please summarize your recommendations.

A. Based upon my review of the Company's filing and interrogatory responses, I recommend that the Delaware Public Service Commission ("Commission"):

- reject Chesapeake's proposed Expanded Transportation Program;
- reject the Company's proposal to increase the number of its rate classes;
- adopt PSC Staff's recommended change to the Company's cost-of-service methodology;
- adopt PSC Staff's recommended rate structure which includes non-uniform rate adjustments both across rate classes and within individual rate schedules;
- adopt the Company's proposed changes to the treatment of interruptible sales margins in the context of its Margin Sharing mechanism;
- adopt Chesapeake's proposed conservation programs and Miscellaneous Service charges; and
- reject the Company's proposed 5th Revised Tariff.

The specific details associated with PSC Staff's recommendations are discussed below.

I. Expanded Transportation Program

Q. Mr. Kalcic, please provide a brief description of the Company's current transportation program.

A. Briefly, the Company offers transportation service to all non-residential customers using at least 3,000 Mcf per year, on an individual customer basis. Transportation service may be taken on either a firm or interruptible basis, at the same Delivery Service rates contained in the customer's applicable (non-transportation) rate schedule. In addition, all customers choosing transportation service are subject to the provisions contained in Chesapeake's Transportation and Balancing Service ("TBS") rate schedule.[1]

Q. How many customers are currently taking transportation service on Chesapeake's system?

A. At the end of 2006, a total of twenty-three (23) customers were taking transportation service, i.e., there were twenty-one (21) firm and two (2) interruptible transportation customers on Chesapeake's system.

Q. How is the Company proposing to modify its transportation program in this proceeding?

[1] The TBS rate schedule includes the Company's balancing charges and cash-out provisions.

A. The Company is proposing to replace its existing transportation program with an Aggregated Transportation Service ("ATS") program that would make transportation service available to more of its customers. The ATS program would aggregate customers electing transportation service into pools (i.e., ATS Consumer Pool), which would be administered by third-party suppliers (i.e., ATS Shipper).[2] All ATS Shippers would be required to execute an ATS Agreement with the Company, which would oblige the ATS Shipper to adhere to the rules and regulations for transportation service contained in Section 19 of the Company's proposed tariff.

Q. How would the proposed ATS program be implemented?

A. Chesapeake proposes to implement the ATS program over four (4) phases. In Phase 1 (i.e., this rate proceeding), transportation service would be offered to all of the Company's non-residential customers. In Phase 2, the ATS program would be extended to all residential customers, and Chesapeake would exit the gas sales function. In other words, transportation service would become *mandatory* for all customers in Phase 2.[3] Phase 3 would expand the number of TTS Pool Shippers and pricing options available to residential customers. Phase 4 would transition the

[2] The Company would require an ATS Consumer Pool to have an aggregate annual gas requirement of at least 5,000 Mcf.

[3] All customers who have not independently selected a third-party supplier would be combined into one Transitional Transportation Service ("TTS") Pool, and supplied by one ATS Shipper selected through a competitive bid process.

TTS Pool to the competitive market, and the Company would no longer select the TTS Shipper(s) through competitive bids.[4]

Q. Why is the Company seeking to implement its ATS program?

A. The Company cites the following four (4) reasons in support of its proposal: 1) the program has been "highly successful with all stakeholders" in Chesapeake's Florida Division, and will allow the Company to exit the gas supply sales function; 2) the program will provide consumers with increased choice and control over their natural gas purchases; 3) the program will allow Chesapeake to focus on its primary mission, i.e., delivering gas to customers, and will encourage the development of "a robust and competitively priced gas supply market;" and 4) the program will respond to consumers' requests for greater access to transportation service.

Q. Mr. Kalcic, how many regulatory jurisdictions allow their regulated local distribution companies ("LDCs") to exit the gas supply sales function?

A. According to the Company's response to PSC-BK-1, Chesapeake is aware of two (2) such states – Florida and Georgia. However, the Company qualifies its response by noting that no Florida LDC has received *permanent* authorization to exit the gas supply sales function at this time.

[4] However, Chesapeake indicates that it would continue to serve as the supplier of last resort in Phase 4.

Q. Does it surprise you that Chesapeake could identify only 2 states that have adopted the central element, i.e., mandatory transportation, of the Company's ATS program plan?

A. No, it does not. Allowing the LDC to exit the gas supply sales function would leave customers without a regulated default service supply option. This would be particularly problematic for smaller users, who would likely receive fewer offers from third party suppliers.

Q. Assuming for the sake of argument that the ATS program has been "highly successful" with respect to Chesapeake's Florida Division, is that a valid reason to adopt the program in Delaware?

A. No. It is my understanding that the Florida Division's customer base consists of a higher percentage of commercial and industrial customers than that of Chesapeake. Also, there may be more interstate pipeline capacity available in Florida than in Delaware. All else equal, these factors would tend to create an environment that encourages greater participation by third party suppliers in the Florida market. Simply making the same program available in Delaware is no assurance of success.

Q. Do you agree with the Company's second argument that the ATS program will provide consumers with increased choice and control over their natural gas purchases?

A. It's possible. The answer depends on the type of offers made to transportation customers. However, one should not equate increased choice with consumers being better off, if there is no regulated default service supply option for customers to fall back on.

Q. Do you have any comment on the Company's third argument that the ATS program will allow the Company to focus on its primary mission, i.e., delivering gas to customers?

A. Yes. While the Company's statement may be true, I don't see how that would make Chesapeake's customers any better off (unless Chesapeake is suggesting that the quality of its delivery service has suffered as a result of the Company having to serve a gas supply function). More than likely, this is simply the case of Chesapeake wanting to exit the gas supply function because it "derives no financial benefit from the commodity sale of gas."

Q. Do you have any comment on the Company's claim that it has received increased requests from customers for greater access to transportation service?

A. Yes. I don't dispute the Company's claim that it has been approached by customers seeking greater access to transportation service. However, if such requests have been widespread, why is it that we don't we see more than 23 customers taking transportation service under the Company's existing program? While it is true that the Company's current transportation program has a 3,000 Mcf per year usage threshold, the lack of participation in the current program is telling since it is precisely those customers who stand to benefit the most from increased choice.

Q. Mr. Kalcic, what is your recommendation with respect to the Company's proposed ATS program?

A. I recommend that the Commission reject the ATS program.

Q. Has the Company proposed any changes to its Gas Sales Rate ("GSR") in conjunction with its ATS program proposal?

A. Yes. Chesapeake is proposing to revise its GSR so that all sales customers pay the same rate (i.e., $/Ccf).

Q. Does PSC Staff oppose this change?

A. Yes, it does. PSC Staff recommends that the Commission consider no changes to the GSR outside the context of the Company's annual GSR rate filing.

II. <u>Proposed Rate Classes</u>

Q. Mr. Kalcic, how many different rate classes are included in the Company's current tariff?

A. At present, the Company serves approximately 34,232 customers via fourteen (14) rate schedules.[5] However, approximately 99.9% of the Company's customers are served on five (5) major rate schedules, i.e., Rate Schedules ("Rates") RS, GS, MVS, LVS and HLFS.

Rate RS is available to residential customers only. Rates GS, MVS, LVS, and HLFS are available to non-residential customers, subject to certain restrictions.[6]

Q. How does Chesapeake propose to modify its current rate classes?

A. Of the 14 existing rate classes, Chesapeake proposes to eliminate eight (8) (i.e., Rates RS, GS, MVS, LVS, GCR, GCO, IS and SFS) and retain six (6) (i.e., Rates HLFS, GLR, GLO, NCR, NGV and IBE). In place of the 8 discontinued rate schedules, Chesapeake proposes to substitute twelve (12) new non-transportation rate schedules.[7] In addition, the Company would implement seven (7) new transportation rate schedules, i.e., one transportation rate schedule for each of Chesapeake's seven (7) new general service rate classes.[8]

[5] The current rate schedules include: Residential Service (RS), General Service (GS), Medium Volume Service (MVS), Large Volume Service (LVS), High Load Factor Service (HLFS), Seasonal Firm Service (SFS), Residential Gas Cooling Service (GCR), Non-residential Gas Cooling Service (GCO), Residential Gas Lighting Service (GLR), Non-residential Gas Lighting Service (GLO), Negotiated Contract Rate (NCR), Interruptible Service (IS), Interruptible Best Efforts Service (IBE), and Natural Gas Vehicle Service (NGV).

[6] The following rate annual usage restrictions apply: Rate GS – less than 400 Mcf; Rate MVS – from 400 to 1,500 Mcf; and Rate LVS – greater than 1,500 Mcf. In addition, Rate HLFS is available to customers with annual usage of at least 400 Mcf, but no greater than 35% of such usage is allowed within the winter period, i.e., January through March.

[7] These new rate schedules include Residential Service – 1 through Residential Service – 3 (RS-1, etc.), Residential Service E. Sussex County Expansion Area Rider (RSES), General Sales Service – 1 through General Sales Service – 7 (GS-1, etc.), and Interruptible Transportation Service (ITS).

[8] The new transportation rate schedules include Firm Transportation Service – 1 through Firm Transportation Service – 7 (FTS-1, etc.).

Taken as a whole, Chesapeake's proposal would establish nineteen (19) (i.e., 12 non-transportation plus 7 transportation) new rate classes. When the 6 existing rate classes that would be retained by Chesapeake are included, the Company's new tariff would contain a total of twenty-five (25) rate classes, or eleven (11) more than at present.

Q. Why is Chesapeake proposing to modify its current rate classes?

A. In Chesapeake's view, the Company's present rate classes are not sufficiently homogeneous, which results in larger-volume customers subsidizing smaller volume customers both across and within rate classes. As Mr. Householder explains, the further stratification of Chesapeake's existing rate classes is seen as "a significant step toward reducing subsidization."

In addition, the Company argues that it needs the ability to more closely match alternative fuel and/or electricity prices in order to remain competitive. The Company believes that it will be better able to meet such "competitive pricing threats" by establishing several new rate classes, each with a different price point.

Q. Mr. Kalcic, do you agree with the Company's proposal to restructure its current rate classes?

A. No. Except in the certain limited instances that I will discuss below, I disagree with Chesapeake's proposal. I see no reason to undertake an extensive restructuring of

Chesapeake's 5 major rate classes (i.e., Rates RS, GS, MVS, LVS and HLFS) at this time.

Q. Please explain.

A. In essence, Chesapeake claims that its existing tariff with 5 major rate classes is insufficient to serve a system with approximately 34,200 customers. I disagree. Based upon my experience, I would have to conclude that it would be highly unusual for a natural gas distribution company to operate with more than 5 major rate schedules,[9] much less the ten (10) proposed by Chesapeake.[10] In short, the Company's proposal to implement 19 new rate classes (including transportation) would introduce unnecessary complexity to the Company's tariff.

Q. Wouldn't more rate classes allow for a reduction in intraclass rate subsidies, as suggested by the Company?

A. In theory, yes. However, short of establishing separate rates for individual customers, there will always exist some degree of subsidization on a utility system. Stated differently, since it is not feasible to implement customer-specific rates, utilities must group customers into a manageable number of rate classes (base upon similar cost characteristics), and simultaneously accept the fact that a certain level of intraclass subsidization is unavoidable.

---

[9] An exception being the Company's Florida affiliate.

[10] The 10 proposed rate classes include Rates RS-1, RS-2, RS-3, GS-1, GS-2, GS-3, GS-4, GS-5, GS-6 and GS-7. Note that this list excludes the Company's proposed Rate RSES and transportation rates FTS-1 through FTS-7.

The real question before the Commission is not whether Chesapeake's current rate classes permit intraclass subsidization, but rather whether Chesapeake's existing rate class structure is grossly out of line with standard industry practice. In my view, it is not.

Q. Do you agree with Chesapeake that it needs several new rate classes in order to remain competitive with alternative fuel and/or electricity prices?

A. No. Chesapeake already possesses the ability to compete with its customers' competitive options, as necessary, via its Rate NCR, i.e., the Negotiated Contract Rate.

Q. What would be the effect on Chesapeake's customers if the Commission were to approve the Company's proposed rate classes?

A. The immediate result would be that 99.9% of Chesapeake's customers would be placed on new rate schedules at the conclusion of this proceeding, based, primarily, upon their level of annual usage. In addition, customers would likely be subject to more frequent switching between rate schedules from year-to-year (since changes in annual consumption would be more likely to move customers across the more narrowly defined class usage thresholds). In PSC Staff's view, such considerations raise general concerns about customer perception (and acceptance) of the Company's new tariff.

Q. Mr. Kalcic, earlier you stated that PSC Staff could agree to a limited number of changes to the Company's proposed rate classes. What are those changes?

A. First, PSC Staff agrees with Chesapeake's proposal to eliminate Rates GCR and GCO (i.e., the Company's cooling rate schedules), since there are presently no customers taking service under these rate schedules. Second, PSC Staff would recommend establishing separate rate schedules for residential heating (RS-H) and residential non-heating/other (RS-O) customers (but not the RS-1 through RS-3 rate classes proposed by the Company). Third, PSC Staff would agree to the Company's proposed interruptible service changes (i.e., Rate ITS), subject to the clarification discussed below.

Q. Why does PSC Staff recommend splitting the residential class along heating and non-heating lines?

A. PSC Staff concludes that the RS-H / RS-O split is reasonable for two reasons. First, according to PSC Staff's recommended cost-of-service study, the *annual* delivery service cost per RS-O customer is approximately $250.00, compared to $390.00 per RS-H customer.[11] This equates to a 56% difference in annual cost of service, which PSC Staff believes is significant enough to warrant separate residential rate schedules. Second, PSC Staff finds that splitting the residential class along heating/other lines makes sense from a customer perception/acceptance perspective. In other words, PSC Staff believes that residential customers are much more likely to accept a new structure that is based upon a heating/non-heating designation, than one that is based upon "arbitrary" annual usage levels.

Q. Please discuss the Company's current Interruptible Service (IS) rate classification.

A. Rate IS is available to any non-residential customer that has the ability to utilize an alternative fuel, such as propane or fuel oil. All Rate IS customers pay a fixed monthly charge of $100. However, the Rate IS consumption charge varies, by customer, according to the individual customer's circumstances.

Chesapeake indicates that it served 95 Rate IS customers at the end of 2006. Moreover, of those 95 Rate IS customers, over half use less than 1,000 Mcf per year.

Q. How would the Company's proposed Rate ITS differ from Rate IS?

A. Unlike Rate IS, Rate ITS would establish a minimum annual usage threshold of 10,000 Mcf. In addition, Chesapeake would require all Rate ITS customers to transport.[12] Current interruptible customers that fail to meet these requirements would be served under the Company's applicable firm service rate schedules.

---

[11] These cost levels are based upon the Company's requested revenue requirement level, as given in PSC-BK-31.

[12] Note that the Company's proposed Rate ITS usage threshold of 10,000 Mcf per year exceeds the Company's current transportation threshold of 3,000 Mcf per year. Therefore, from PSC Staff's perspective, no changes to the Company's existing transportation program should be necessary.

Q. Why is Chesapeake proposing the above changes to its interruptible service requirements?

A. Chesapeake argues that the changes are necessary because: 1) the Company is currently providing an interruptible rate discount "to numerous consumers that have limited alternate fuel capabilities, and limited ability to quickly (within 4 hours) respond to a service interruption notice;" and 2) there are limited system benefits associated with interrupting small volume customers.

Q. Does PSC Staff oppose the Company's Rate ITS proposal?

A. No. However, PSC Staff's acceptance of Rate ITS is conditional upon the Company's assurance that moving current interruptible service customers to firm service would not have a detrimental impact on its gas acquisition planning or GSR rate.

III. <u>Cost of Service Study</u>

Q. Mr. Kalcic, please provide a brief description of the cost-of-service analysis submitted by the Company in this proceeding?

A. The Company performed a fully allocated cost-of-service study ("COSS") for the purpose of assigning the Company's claimed (base rate) revenue requirement to rate classes. More accurately, the Company performed six (6) COSSs utilizing either Test Year versus Test Period costs, or present versus proposed rate classes.

All of the Company's studies utilize the same cost-of-service methodology. In general, the Company's cost methodology reflects the traditional three-step process of functionalization, classification and allocation. *Functionalization* refers to the process whereby utility plant and related expenses are assigned to functions, such as transmission, distribution or customer service. *Classification* refers to the process where the functionalized costs are broken down into four (4) cost categories: capacity, commodity, customer or revenue related costs. Finally, *allocation* refers to the process whereby the utility's classified costs are assigned to rate classes, based upon a factor that reflects a causal relationship between a given class and the utility's cost incurrence.

Q. What does Chesapeake's COSS indicate with respect to the relative contribution toward allocated cost of the Company's existing rate classes?

A. Schedule BK-1 provides a summary of the cost-based increases that would be required of Chesapeake's existing rate classes, using the Company's COSS methodology and claimed Test Period revenue requirement. As shown in column 6 of Schedule BK-1, the Company's residential customer classes would require increases ranging from 2 to 7 times the system average in order to provide a rate of return equal to the Company's requested 9.68%. All of the Company's other major rate classes would either require a less than system average increase (i.e., Rate GS) or a base rate decrease (i.e., Rates MVS, LVS and HLFS) in order to move to full cost of service. As such, the Company's COSS indicates that residential customers are being subsidized by non-residential customers at present rates.

Q. Do you agree with the Company's COSS methodology in this proceeding?

A. No. I disagree with the Company's method of classifying the costs associated with its distribution mains.

Q. How did the Company classify distribution mains?

A. Chesapeake classified distribution mains as 72% customer-related and 28% demand-related, based upon a separate "minimum size" or "minimum system" analysis. As a result of that classification, 72% of the cost of distribution mains is allocated to rate classes based upon number of customers, and 28% is allocated to rate classes based upon peak (or Design Day) demand.

Q. Why do you find that result inappropriate?

A. The Company's minimum system methodology ignores the fact that a hypothetical gas distribution system, built solely to the minimum standard necessary to connect all customers to the system, would still be able to serve a demand function (albeit at some reduced level). To account for this demand serving capability of the minimum system, a proper minimum system analysis would need to allocate the demand-related component of distribution mains to rate classes on the basis of

Design Day demands *in excess of the portion of peak demand that is served by the minimum system component.* The Company's methodology does not do so.

Q. Which of Chesapeake's rate classes are most disadvantaged by the Company's minimum system methodology?

A. The Company's small volume rate classes such as Rates RS-O, RS-H and GS are hurt the most, since the minimum system component of the distribution system would be able to serve a higher percentage of their Design Day demands than would be the case with the Company's large volume rate classes.[13]

Q. What do you recommend?

A. I recommend that the Company's minimum system study be rejected, and that Chesapeake's distribution mains instead be classified as 100% demand-related.

Q. Have you rerun the Company's Test Period COSS with distribution mains classified as 100% demand-related?

A. Yes. I requested that the Company perform such an analysis in PSC-BK-31. The results are summarized in Schedule BK-2.

[13] The greater the percentage of a class' Design Day demand that is served by the minimum system, the smaller that class' *excess* Design Day demand allocation factor, and therefore the lower that class' share of the Company's distribution mains cost that is classified as demand-related.

Q. What does Schedule BK-2 indicate with respect to the Company's major rate classes?

A. Schedule BK-2 shows that Rates RS-O, MVS, LVS and HLFS would require increases ranging from 1.3 to 4.5 times the system average in order to provide a rate of return equal to the Company's requested 9.68%. On the other hand, Rates RS-H and GS would require less than average base rate increases in order to move to full cost of service. Accordingly, my recommended cost study indicates that residential heating and general service customers are subsidizing Rates RS-O, MVS, LVS and HLFS at present rates.

Q. Have you utilized the cost-of-service results shown in Schedule BK-2 as a guide when preparing your recommended class revenue distribution?

A. Yes, I have.

IV. Revenue Allocation & Rate Design

Q. Mr. Kalcic, how does Chesapeake propose to recover its requested delivery revenue increase of $1.896 million from ratepayers?

A. Schedule BK-3 summarizes Chesapeake's proposed revenue allocation to each of the Company's proposed rate classes.[14] As shown on lines 1-15 of Schedule BK-3, the Company's proposed base revenue increases range from 1.23% (for Rate NCR)

[14] Note that the Company did not derive a proposed revenue allocation and rate design on the basis of its existing rate classes.

to 16.15% (for Rate GS-6). The overall proposed increase to the Company's residential customers is 11.07% (per line 4), while the overall increase to the Company's firm commercial and industrial ("C&I") customers is 11.23% (per line 13).

Q. How did the Company arrive at the proposed class revenue allocation shown in Schedule BK-3?

A. Mr. Householder states that he reviewed the Company's class cost-of-service results, and established class revenue requirement targets that reflect a gradual reduction in existing cross-subsidies. He also indicates that his class revenue targets take into consideration the Company's competitive position within the marketplace for alternative fuels.

Q. Have you prepared a recommended class revenue allocation using the Company's proposed rate classes, similar to that shown in Schedule BK-3?

A. No, I have not. As I previously discussed, PSC Staff opposes the Company's proposal to expand the number of its rate classes. Consistent with that position, I prepared my recommended revenue allocation using the Company's existing rate classes.

Q. What is your recommended class revenue allocation?

A. I recommend that PSC Staff's recommended revenue decrease of $693,245 be distributed to rate classes as shown in column 3 of Schedule BK-4.

Q. How did you derive your recommended class revenue adjustments?

A. Mr. Smith recommends a base rate decrease of $693,245. At the same time, PSC Staff is accepting the Company's proposed changes to its Miscellaneous Service charges, which would generate $241,382 of additional revenue (per line 14 of Schedule BK-4).[15] Taken together, these revenue adjustments necessitate that the Company's firm rate classes receive an overall base rate decrease of approximately $935,000 or 6.2%, as shown on line 10 of Schedule BK-4.

My individual class revenue adjustments, shown on lines 1-9 of Schedule BK-4, are designed to be consistent with the class cost of service results shown in Schedule BK-2, subject to the condition that no class receive a base rate increase in this proceeding.[16] In particular, I divided the Company's firm rate classes into three (3) groups for revenue allocation purposes. Group 1 consists of Rates MVS and LVS, which are shown to require the highest cost-based increases (i.e., in excess of 300% of the system average) in Schedule BK-2. Group 2 consists of Rates RS-O, HLFS and GL, which are shown to require cost-based increases ranging from 135% to 186% of the system average. Group 3 consists of all firm

[15] I discuss Miscellaneous Service charges in greater detail later in my testimony.
[16] Since PSC Staff is recommending an overall base rate decrease, I chose to constrain my class revenue distribution such that no class would receive a base rate increase.

rate classes that require increases that are less than the system average, i.e., Rates RS-H, GS and SFS.

All rate classes in Group 1 were assigned a 0% decrease. All rate classes in Group 2 were assigned a decrease of 3.1%, or one-half the overall firm decrease of 6.2% shown on line 10 of Schedule BK-4. Finally, all rate classes in Group 3 were assigned the residual decrease (i.e., 7.5%) necessary to achieve PSC Staff's overall base revenue target in this proceeding. In this way, Groups 1 and 2 receive base revenue decreases that are less than the system average, and Group 3 receives a revenue decrease that is greater than the system average.

Q. Mr. Kalcic, why does the total present revenue shown in column 1 of Schedule BK-4 exceed the total shown in column 1 of Schedule BK-3?

A. PSC Staff's recommended pro forma revenues at present rates of $15,744,059 (shown in Schedule BK-4) reflect Mr. Smith's recommended 30-year weather normalization adjustment. This adjustment produces an increase in pro forma delivery revenues at present rates of approximately $273,533.

Q. Have you designed a set of rates to implement your recommended class revenue distribution?

A. Yes, I have. Schedule BK-5 shows my recommended rate design and proof of revenue for the Company's firm rate classes.

Q. Please discuss Schedule BK-5.

A. Schedule BK-5 consists of seven (7) columns. The present (i.e., pre-interim rate increase) revenue level for each class is derived in column 3 from the class billing determinants and pre-interim rates shown in columns 1 and 2, respectively. My recommended rates are shown in column 4. Column 5 shows the annual class delivery revenues produced by my recommended rates. Finally, columns 6 and 7 show my recommended changes in revenues and the resulting percentage increases, respectively, by both rate class and individual tariff component.

Q. How did you determine your recommended adjustments to the individual tariff components shown in Schedule BK-5?

A. In general, my recommended rate design seeks to reflect an initial movement towards a Straight Fixed Variable ("SFV") rate design, consistent with PSC Staff's position in Regulation Docket No. 59.

As Ms. Neidig explains in her direct testimony, PSC Staff opposes the Company's specific Revenue Normalization Mechanism ("RNM") proposal in this proceeding, and the revenue normalization mechanism concept, in general, that is the subject of Regulation Docket No. 59. As Ms. Neidig also explains, in Regulation Docket No. 59, PSC Staff has indicated its preference for a SFV rate design in lieu of other types of revenue decoupling mechanisms.

Accordingly, my recommended rate design begins a movement toward a SFV rate design by increasing the percentage of total base revenue that is recovered through the Company's fixed (i.e., customer) charges. As shown in Schedule BK-5, my recommended rate design increases the level of the customer charges applicable to Chesapeake's firm rate classes from 7.9% to 50.0%, despite the fact that PSC Staff is recommending an overall base rate decrease in this proceeding.

Q. What percentage of total base revenue is recovered from Chesapeake's firm rate classes under your recommended rate design?

A. My recommended rate design recovers approximately 40% of total base revenue through the customer charge, which represents a 33% increase over the current (i.e., 30%) level of fixed charge recovery.

Q. Does your recommended rate design recover 40% of the revenue requirement *of each class* in the customer charge?

A. No, the 40% figure applies only to the Company as a whole. Certain classes, like Rates RS-O and GS, already contribute in excess of 40% of their individual revenue requirements through the customer charge. Other classes, like Rates LVS and HLFS, currently contribute less than 20% through fixed charges. In order to meet my overall target of a 40% level of fixed charge recovery without creating excessive rate impacts within certain classes, I limited my individual customer charge increases to 50%, and collected the balance of the targeted fixed charge recovery via my recommended customer charge increases to Rates RS-O, RS-H and GS.

Q. Does your recommended rate design implement a demand charge for the Chesapeake's largest customers, as under the Company's proposal?

A. No. I would note that PSC Staff does not oppose the concept of a demand charge for Rate LVS, assuming that the resulting customer bill impacts were reasonable. However, PSC Staff was unable to explore this alternative type of rate design due to the absence of appropriate class billing determinants.

Q. Does your recommended rate design eliminate the rate blocks applicable to Rates RS-O, RS-H, GS, MVS and LVS, as is the case under the Company's SFV rate design proposal?

A. No. Since the Commission has not made a final determination with respect to SFV rate design or revenue decoupling in Regulation Docket No. 59, I have retained the Company's existing rate block structure for all of the above classes. However, in order to meet the individual class revenue targets shown in Schedule BK-4, I decreased the charges in the initial rate block(s) of each class proportionately, as necessary.[17] This results in a tighter "spread" in rate block charges.

Should the Commission formally adopt the SFV rate design approach in Regulation Docket No. 59, the Company can fully implement that directive in a future rate case(s). On the other hand, should the Commission reject the SFV rate

[17] This is appropriate since the Company's initial rate blocks recovery a disproportionate amount of fixed costs, compared to the tail block.

design concept, PSC Staff's recommended rate design movement should not be difficult to "reverse" in the course of the Company's next rate proceeding.[18]

Q. Mr. Kalcic, what would be the impact of your recommended rate design on a residential heating customer that uses 120 Ccf during a winter month?

A. Under my recommended rate design, such a customer would experience a decrease of $4.89 or 2.71% on a total bill basis.

V. Margin Sharing Mechanism

Q. Mr. Kalcic, please summarize the Company's current margin sharing mechanism.

A. The Company's current tariff permits it to share a portion of the margins associated with interruptible sales, off-system sales and capacity release (i.e., "Shared Margins"). Per the Commission's decision in Phase II of PSC Docket No. 01-307, Chesapeake retains the first $800,000 of Shared Margins, and 20% of any margins in excess of the $800,000 threshold.

Q. What changes does Chesapeake propose to the current margin sharing mechanism?

[18] Such result would not be true if a flat consumption charge were to be implemented for all firm rate classes in this proceeding.

A. As shown on line 17 of Schedule BK-3, Chesapeake proposes to impute 100%, or $574,853, of Rate ITS interruptible margins toward its authorized revenue requirement. However, unlike the current margin sharing mechanism, Chesapeake does not propose to share any Rate ITS margins in excess of that amount. In general, the Company's ATS program would affect the off-system sales and capacity release portions of Shared Margins, but the current sharing percentages would presumably remain intact for off-system sales. More specifically, Chesapeake does not forecast any off-system sales margins, other than Rate IBE, which would continued to be shared 80% (GSR credit) / 20% (Company). *All* capacity release margins associated with the Company's proposed Asset Management agreement and capacity assignment to ATS Shippers would be credited to the GSR.

Q. Why does the Company propose to discontinue the sharing of Rate ITS margins above the $574,853 threshold?

A. The Company argues that its imputed Rate ITS revenue requirement exceeds the embedded cost to serve the class. That fact, combined with Rate ITS customers' alternative fuel capability, allegedly leaves the Company at increased risk for fuel switching. While Chesapeake is prepared to absorb this higher risk, it believes it should retain all margins achieved from Rate ITS customers.

Q. Is PSC Staff prepared to accept the Company's proposal with respect to Rate ITS margins?

A. Yes. Since Rate ITS is limited to customers with annual usage in excess of 10,000 Mcf, and since 100% of the Company's forecast margins have been imputed toward Chesapeake's firm revenue requirement, PSC Staff concludes that the Company's proposal is reasonable and should be adopted.[19] If Chesapeake is able to grow such margins significantly after the conclusion of this proceeding, the Commission can revisit the issue of sharing Rate ITS margins in the Company's next base rate case.

Q. What are PSC Staff's views with regard to the off-system sales and capacity release portions of Shared Margins?

A. Since PSC Staff recommends that the Company's ATS program be rejected, it believes that Chesapeake should find continued opportunities for off-system sales and capacity release. As such, PSC Staff finds no reason to alter the current margin sharing percentages associates with such opportunities. In other words, PSC Staff recommends that all off-system sales and capacity release margins continue to be shared 80% / 20% between the GSR and Company shareholders.

VI. Conservation Programs

[19] I would note that PSC Staff imputes a slightly higher level of Rate ITS margins (i.e., $576,228 per line 12 of Schedule BK-4) toward the Company's overall revenue requirement, due to PSC Staff's 30-year weather normalization adjustment.

Q. Mr. Kalcic, please provide a brief description of the Company's proposed conservation programs or initiatives.

A. As explained by Mr. Householder, Chesapeake proposes to implement four (4) energy conservation programs at this time: 1) Chesapeake would become a sponsor of the ENERGY STAR program, and actively promote high efficiency appliances and products; 2) Chesapeake would implement a Residential Appliance Replacement Program, which would offer allowances (or rebates) ranging from \$100 to \$450 to customers that replaced existing gas appliances with high efficiency appliances; 3) Chesapeake would implement a Residential New Construction Program to incent homebuilders (via rebates of \$100 to \$400) to install high efficiency appliances; and 4) Chesapeake would implement a Consumer Education Program to promote energy efficiency and conservation throughout its service area.

Q. How did the Company determine the level of its proposed appliance rebates?

A. The Company examined the incremental cost of installing a high efficiency appliance over that associated with installing an appliance that meets only the minimum Federal efficiency standard. Appliance rebates were set, on average, to recover approximately 50% of the cost of upgrading to a high efficiency appliance.

Q. How does the Company propose to recover the costs associated with its conservation programs?

A. Chesapeake proposes to recover its conservation-related costs through an Energy Conservation Cost Recovery ("ECCR") mechanism. The ECCR rate would be set for a calendar year, based upon an annual filing by Chesapeake. In its annual filing, Chesapeake would project its conservation costs (and sales) for the coming year, and provide a true-up for historical over- and/or under-recoveries of its actual costs. Finally, the ECCR would be collected from all firm service customers on a uniform $/Ccf basis.

Q. Mr. Kalcic, does PSC Staff have any concerns with respect to Company's conservation programs?

A. Yes. In PSC-BK-23, PSC Staff raised a concern regarding the potential for the Company's rebate program to attract "free riders," i.e., customers who would have purchased a high efficiency appliance anyway *without* a rebate. Note that paying a rebate to a free rider results in a windfall to that customer, but it does not produce the intended social benefit – an incremental investment in energy efficient appliances. As such, if a large percentage of customers participating in a rebate program were to be free riders, it would be difficult to justify undertaking the program.

Q. How did Chesapeake respond?

A. While acknowledging the existence of free riders, Chesapeake noted that the current penetration rate of high efficiency gas furnaces in the new residential construction market in the Company's service territory is less than 10%. The Company also indicated that the equivalent penetration rate in the residential replacement market is "only marginally higher." Given such evidence, the Company argues that the free rider issue should not be a significant concern at this time.

Q. Does PSC Staff recommend approval of the Company's conservation programs and ECCR cost recovery mechanism?

A. Yes. In general, PSC Staff concludes that Chesapeake's conservation proposals should be adopted by the Commission at this time, pending further development of the specific conservation role to be played by electric and gas distribution companies, in the context of Delaware's proposed Sustainable Energy Utility ("SEU") framework. For example, if it is decided that customer education should be handled by the SEU at the statewide level, Chesapeake's education program could be suspended. Likewise, other modifications could be incorporated, as appropriate, over time.

VII. Miscellaneous Service Charges

Q. Mr. Kalcic, has the Company proposed any changes to its Miscellaneous Service charges?

A. Yes. Chesapeake has proposed to implement four (4) new Miscellaneous Service charges: 1) a Connection Charge equal to $35 to activate new service;[20] 2) a Seasonal Reconnection Charge equal to the applicable monthly customer charge times the number of months that the service is inactive;[21] 3) a Change of Account Charge equal to $17 to establish new service at a location where physical service is intact, i.e., where service has not already been disconnected; and 4) a Failed Trip Charge equal to $35 for failure to keep a scheduled appointment involving a field visit.

Q. Is Chesapeake proposing to increase the level of any of its existing Miscellaneous Service charges?

A. No, it is not.

Q. How did the Company determine the level of its new Miscellaneous Service charges?

A. The proposed Connection Charge and Failed Trip Charge were set at a level equal to the Company's current Reconnection Charge of $35. The Change of Account Charge was set at the level of the Company's current Field Collection Charge of $17. Finally, as previously mentioned, the Seasonal Reconnection Charge would

---

[20] The Connection Charge would be separate and distinct form the Company's existing Reconnection Charge (of the same amount) that must be paid in order to re-establish service at the customer's current residence.

[21] At present, a seasonal customer who requests that service be shut-off pays (only) the Company's existing Reconnection Charge. The Reconnection Charge would still apply under Chesapeake's proposal.

not reflect a set charge per occurrence, but rather would be a function of the customer's current rate schedule.

Q. Did PSC Staff examine the cost basis for the level of the Company's new Miscellaneous Service charges?

A. Yes. Chesapeake provided the cost basis for its proposed charges in response to PSC-BK-18. In general, the Company's proposed charges have been set at levels that are below the Company's estimated costs for fieldwork, dispatching, and processing. However, in such cases, Chesapeake indicated that it chose the lower fee in order to maintain consistency with its Maryland Division.

Q. Do you agree with the Company's new Miscellaneous Service charges?

A. Yes. In the case of the Connection Charge, Failed Trip Charge and Change of Account Charge, the Company is providing a service to individual customers. However, at present, the costs for these services are being recovered in the base rates paid by *all* of Chesapeake's customers. As with the individual services covered by the Company's existing Miscellaneous Service charges, it is more appropriate to recover (at least a portion of) the costs associated with individual services from the customers receiving the direct service. Since the Company's proposed fees are cost justified, I recommend that the Commission adopt them.

Q. Why is the Company's Seasonal Reconnection Charge appropriate?

A. The majority of Chesapeake's delivery costs are fixed in nature. As such, the Company does not experience a significant level of avoided delivery costs when a customer requests seasonal service. Instead, those "unavoided" delivery costs are collected in the base rates paid by all customers. If the Commission were to adopt the Company's Seasonal Reconnection Charge, there would be less shifting of fixed delivery service costs from seasonal to non-seasonal customers on Chesapeake's system.

Q. Do you recommend that the Commission adopt the Company's proposed Seasonal Reconnection Charge?

A. Yes, I do.

Q. Have you reflected the additional revenue that would be produced by the Company's new Miscellaneous Service charges in your recommended rate design?

A. Yes. As shown in Schedule BK-6, the Company's new Miscellaneous Service charges would produce $241,382 of additional annual revenue. This additional revenue is included on line 14 of Schedule BK-4, and acts as an offset to the amount of revenue to be collected through my recommended base rates.

VIII. Proposed Tariff Revisions

Q. Mr. Kalcic, do you wish to comment on the Company's proposed tariff revisions?

A. Yes. Beginning of page 112 of his direct testimony, Mr. Householder provides a general discussion of the extensive revisions that Chesapeake has proposed be incorporated into its new 5th Revised Tariff.[22] Many of these revisions are connected with the Company's proposed ATS program and its restructured rate classes. As previously discussed, PSC Staff opposes virtually all of the Company's proposals in these areas. Accordingly, PSC Staff would recommend that the Commission reject the Company's proposed 5th Revised Tariff in its entirety and instead direct Chesapeake to incorporate all tariff revisions necessitated by this proceeding within the Company's existing tariff.

Q. Why does PSC Staff believe it is more appropriate to make changes within the context of the Company's existing tariff?

A. Aside from the fact that extensive tariff revisions would not be necessary if the Commission were to reject the Company's transportation and rate restructuring proposals, PSC Staff has had difficulty reviewing/verifying all tariff revisions in the context of the 5th Revised Tariff. Quite simply, the sheer magnitude of the proposed tariff revisions (which necessitated that Chesapeake file a new tariff)

[22] Based upon the extent of the proposed modifications, Chesapeake determined that it was not practical to edit the existing tariff, and it therefore submitted a new 5th Revised Tariff.

makes it difficult to locate, track and verify any changes to existing tariff provisions. And, of course, this is exactly the type of exercise that PSC Staff will have to perform when the Company submits its compliance filing at the conclusion of this proceeding.

In order to facilitate an efficient and timely review of the Company's compliance filing, PSC Staff recommends that the Commission reject the Company's proposed 5th Revised Tariff.

Q. **In the event that the Commission determines that it is not feasible to revise the Company's current tariff, which of the new tariff provisions should the Commission order the Company to delete, based upon PSC Staff's filed positions in this proceeding?**

A. The Commission should order the Company to delete the following rate classes: Rates RS-1, RS-2, RS-3, RSES, GS-1, GS-2, GS-3, GS-4, GS-5, GS-6, GS-7, FTS-1, FTS-2, FTS-3, FTS-4, FTS-5, FTS-6, and FTS-7. In addition, the following rate categories should be deleted: SAS-Shipper Administrative Service, SABS-Shipper Administrative and Billing Service, DBS-Daily Balancing Service, SSS-Seasonal Swing Service, RNM-Revenue Normalization Mechanism Rider and the TCR-Transportation Cost Recovery Rate Adjustment Rider.

Q. **Does this conclude your direct testimony?**

A. Yes.

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
CHESAPEAKE UTILITIES CORPORATION FOR	)	
A GENERAL INCREASE IN ITS NATURAL GAS	)	
RATES AND FOR APPROVAL OF CERTAIN	)	PSC DOCKET NO. 07-186
OTHER CHANGES TO ITS NATURAL GAS TARIFF	)	
(FILED JULY 6, 2007)	)	

SCHEDULES ACCOMPANYING THE
DIRECT TESTIMONY OF STAFF WITNESS

BRIAN KALCIC

DECEMBER 14, 2007

186645.1

Chesapeake Utilities Corporation
Delaware Division
Comparison of Present Revenues with Class Cost-of-Service Indications
Basis: CUC Test Period Cost Study - Existing Rate Classes

Line	Class	Present Rate Revenue	Present Percent	Class Cost of Service 1/ Rate Revenue	Class Cost of Service 1/ Percent	Cost-Based Increase	Relative Increase
		(1)	(2)	(3)	(4)	(5) = (3) / (1)	(6)
1	Residential Service-Heat	$10,616,506	69.12%	$12,887,442	75.68%	21.39%	197
2	Residential Service-Other	$239,631	1.56%	$420,713	2.47%	75.57%	696
3	General Service	$1,209,619	7.87%	$1,291,847	7.59%	6.80%	63
4	Medium Volume Service	$600,973	3.91%	$583,418	3.43%	-2.92%	-27
5	Large Volume Service	$1,163,460	7.57%	$1,000,225	5.87%	-14.03%	-129
6	High Load Factor Service	$948,940	6.18%	$710,984	4.18%	-25.08%	-231
7	Gas Lighting Service	$1,379	0.01%	$2,895	0.02%	109.93%	1013
8	Seasonal Firm Service	$3,719	0.02%	$3,319	0.02%	-10.76%	-99
9	Interruptible Service	$574,853	3.74%	$126,247	0.74%	-78.04%	-719
10	NGV Service	$1,375	0.01%	$884	0.01%	-35.71%	-329
11	TOTAL	$15,360,455	100.00%	$17,027,974	100.00%	10.86%	100
	Source:	Att. JMH-2, Base Revenue		Att. JMH-5, pp. 1 & 2 of 10			

1/ Rate revenue necessary to produce 9.68% rate of return.

Chesapeake Utilities Corporation
Delaware Division
Comparison of Present Revenues with Class Cost-of-Service Indications
Basis: Staff Test Period Cost Study - Existing Rate Classes

Line	Class	Present		Class Cost of Service 1/			
		Rate Revenue	Percent	Rate Revenue	Percent	Cost-Based Increase	Relative Increase
		(1)	(2)	(3)	(4)	(5) = (3) / (1)	(6)
1	Residential Service-Heat	$10,616,506	69.12%	$11,652,551	68.43%	9.76%	90
2	Residential Service-Other	$239,631	1.56%	$287,904	1.69%	20.14%	186
3	General Service	$1,209,619	7.87%	$1,318,579	7.74%	9.01%	83
4	Medium Volume Service	$600,973	3.91%	$821,007	4.82%	36.61%	337
5	Large Volume Service	$1,163,460	7.57%	$1,729,877	10.16%	48.68%	448
6	High Load Factor Service	$948,940	6.18%	$1,087,892	6.39%	14.64%	135
7	Gas Lighting Service	$1,379	0.01%	$1,622	0.01%	17.62%	162
8	Seasonal Firm Service	$3,719	0.02%	$3,192	0.02%	-14.17%	-131
9	Interruptible Service	$574,853	3.74%	$124,848	0.73%	-78.28%	-721
10	NGV Service	$1,375	0.01%	$502	0.00%	-63.49%	-585
11	TOTAL	$15,360,455	100.00%	$17,027,974	100.00%	10.86%	100
	Source:	Att. JMH-2, Base Revenue		PSC-BK-31 pp. 1 & 2 of 10			

1/ Rate revenue necessary to produce 9.68% rate of return.

Schedule BK-3

Chesapeake Utilities Corporation
Summary of Company Proposed
Revenue Allocation

Line	Class	Pre-Interim Delivery Revenue	Company Proposed Delivery Revenue	Proposed Increase Amount	Proposed Increase Percent
		(1)	(2)	(3)=(2)-(1)	(4)=(3)/(1)
	Residential				
1	RS-1	$1,174,627	$1,349,970	$175,343	14.93%
2	RS-2	$8,604,892	$9,539,834	$934,942	10.87%
3	RS-3	$1,076,618	$1,168,518	$91,900	8.54%
4	Subtotal RS	$10,856,138	$12,058,322	$1,202,185	11.07%
	Firm C&I 1/				
5	GS-1	$168,607	$194,242	$25,635	15.20%
6	GS-2	$506,155	$582,641	$76,486	15.11%
7	GS-3	$411,208	$474,373	$63,165	15.36%
8	GS-4	$877,752	$957,374	$79,623	9.07%
9	GS-5	$616,348	$640,488	$24,140	3.92%
10	GS-6	$591,666	$687,194	$95,528	16.15%
11	GS-7	$719,994	$795,831	$75,837	10.53%
12	NCR	$34,983	$35,413	$430	1.23%
13	Subtotal Firm C&I	$3,926,711	$4,367,555	$440,844	11.23%
	Other				
15	GL	$1,379	$1,512	$133	9.64%
16	NGV	$1,375	$1,375	$0	0.00%
17	Interruptible	$574,853	$574,869	$16	0.00%
	Miscellaneous				
18	Shipper Charges	$0	$24,360	$24,360	-
19	Misc. Revenue	$103,731	$342,751	$239,020	230.42%
20	Other Revenue	$6,438	$6,438	$0	0.00%
21	Total Company	$15,470,624	$17,377,183	$1,906,558	12.32%

Source: PSC-BK-25
& PSC-BK-34

$1,895,809 Target
$10,749 Rounding

1/ Includes projected transportation customers.

Chesapeake Utilities Corporation
Summary of PSC Staff Recommended Revenue Allocation

Line	Class	Pre-Interim Delivery Revenue 1/	PSC Staff Recommended Delivery Revenue	Recommended Increase Amount	Recommended Increase Percent
		(1)	(2)	(3)=(2)-(1)	(4)=(3)/(1)
1	RS-H	$10,804,292	$9,998,659	($805,633)	-7.46%
2	RS-O	$241,587	$234,080	($7,507)	-3.11%
3	GS	$1,235,553	$1,143,381	($92,172)	-7.46%
4	MVS	$622,603	$622,606	$3	0.00%
5	LVS	$1,185,082	$1,185,091	$9	0.00%
6	HLFS	$925,885	$896,940	($28,945)	-3.13%
7	NCR	$36,187	$36,187	$0	0.00%
8	SFS	$3,719	$3,440	($279)	-7.49%
9	GL	$1,379	$1,337	($42)	-3.04%
10	Total Firm	$15,056,287	$14,121,721	($934,566)	-6.21%
11	NGV 2/	$1,375	$1,375	$0	0.00%
12	Interruptible 3/	$576,228	$576,228	$0	0.00%
13	Shipper Charges	$0	$0	$0	-
14	Misc. Revenue 4/	$103,731	$345,113	$241,382	232.70%
15	Other Revenue	$6,438	$6,438	$0	0.00%
16	Total Company	$15,744,059	$15,050,875	($693,184)	-4.40%

Source: Sch. BK-5

($693,245) Target
$61 Rounding

1/ Includes PSC Staff witness Ralph Smith's pro forma margin revenue adjustment of $273,533.
2/ Unchanged from Company.
3/ Per 30 yr. weather normalization in DPA-18.
4/ See Schedule BK-6.

Chesapeake Utilities Corporation - Delaware Division
PSC Staff Recommended Rates and Proof of Revenue
Basis: Firm Rate Classes

Description	Billing Determinants	Pre-Interim		PSC Staff Recommended		Recommended Increase	
		Delivery Rates	Delivery Revenue	Delivery Rates	Delivery Revenue	Amount	Percent
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
RSO							
Bills	13836	$9.50	$131,442	$10.25	$141,819	$10,377	7.89%
1st 2 Mcf	14646	$6.070	$88,901	$5.037	$73,772	($15,129)	-17.02%
Add'l 3 Mcf	3737	$4.220	$15,770	$3.502	$13,087	($2,683)	-17.01%
Over 5 Mcf	1765	$1.780	$3,142	$1.780	$3,142	$0	0.00%
Subtotal			$239,255		$231,820	($7,435)	-3.11%
Billing Adjustments			$1,476		$1,430		-3.10%
GSR Rev. Related Tax			$856		$829		-3.10%
RSH							
Bills	359124	$9.50	$3,411,678	$12.00	$4,309,488	$897,810	26.32%
1st 2 Mcf	571777	$6.070	$3,470,686	$4.260	$2,435,770	($1,034,916)	-29.82%
Add'l 3 Mcf	522938	$4.220	$2,206,798	$2.962	$1,548,942	($657,856)	-29.81%
Over 5 Mcf	883188	$1.780	$1,572,075	$1.780	$1,572,075	$0	0.00%
Subtotal			$10,661,237		$9,866,275	($794,962)	-7.46%
Billing Adjustments			$59,733		$55,277		-7.46%
GSR Rev. Related Tax			$83,322		$77,107		-7.46%
GS							
Bills	28260	$17.50	$494,550	$20.25	$572,265	$77,715	15.71%
1st 2 Mcf	35313	$6.570	$232,006	$3.803	$134,295	($97,711)	-42.12%
Add'l 3 Mcf	37826	$4.470	$169,082	$2.587	$97,856	($71,226)	-42.13%
Over 5 Mcf	166078	$1.970	$327,174	$1.970	$327,174	$0	0.00%
Subtotal			$1,222,812		$1,131,590	($91,222)	-7.46%
Billing Adjustments			$2,897		$2,681		-7.46%
GSR Rev. Related Tax			$9,844		$9,110		-7.46%
MVS							
Bills	4140	$40.00	$165,600	$60.00	$248,400	$82,800	50.00%
1st 20 Mcf	64434	$3.160	$203,611	$1.875	$120,814	($82,797)	-40.66%
Over 20 Mcf	166326	$1.440	$239,509	$1.440	$239,509	$0	0.00%
Subtotal			$608,720		$608,723	$3	0.00%
Billing Adjustments			$5,607		$5,607		0.00%
GSR Rev. Related Tax			$8,276		$8,276		0.00%

Chesapeake Utilities Corporation - Delaware Division
PSC Staff Recommended Rates and Proof of Revenue
Basis: Firm Rate Classes

Description		Billing Determinants	Pre-Interim Delivery Rates	Pre-Interim Delivery Revenue	PSC Staff Recommended Delivery Rates	PSC Staff Recommended Delivery Revenue	Recommended Increase Amount	Recommended Increase Percent
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
LVS								
Bills		1884	$60.00	$113,040	$90.00	$169,560	$56,520	50.00%
1st 100 Mcf		138507	$3.720	$515,246	$3.312	$458,735	($56,511)	-10.97%
Over 100 Mcf		595851	$0.920	$548,183	$0.920	$548,183	$0	0.00%
Subtotal				$1,176,469		$1,176,478	$9	0.00%
	Billing Adjustments			($2,865)		($2,865)		0.00%
	GSR Rev. Related Tax			$11,478		$11,478		0.00%
HLFS								
Bills		3228	$40.00	$129,120	$60.00	$193,680	$64,560	50.00%
All Usage		752940	$1.020	$767,999	$0.897	$675,387	($92,612)	-12.06%
Subtotal				$897,119		$869,067	($28,052)	-3.13%
	Billing Adjustments			$7,794		$7,552		-3.10%
	GSR Rev. Related Tax			$20,972		$20,321		-3.10%
NCR								
Bills		12	$40.00	$480	$40.00	$480	$0	0.00%
All Usage		58940	$0.550	$32,417	$0.550	$32,417	$0	0.00%
Subtotal				$32,897		$32,897	$0	0.00%
	Billing Adjustment			$3,290		$3,290		0.00%
	GSR Rev. Related Tax							
SFS								
Bills		12	$60.00	$720	$60.00	$720	$0	0.00%
All Usage		3063	$1.090	$3,339	$0.991	$3,035	($304)	-9.10%
Subtotal				$4,059		$3,755	($304)	-7.49%
	Billing Adjustment			($459)		($425)		-7.46%
	GSR Rev. Related Tax			$119		$110		-7.46%
GL								
Bills		120	$11.50	$1,380	$11.15	$1,338	($42)	-3.04%
Subtotal				$1,380		$1,338	($42)	-3.04%
	Billing Adjustment			($6)		($6)		-3.17%
	GSR Rev. Related Tax			$5		$5		-3.10%
Total Firm				$15,056,287		$14,121,721	($934,566)	-6.21%

Source: PSC-BK-24, PSC-BK-25 & DPA-18.

Schedule BK-6

Chesapeake Utilities Corporation
Derivation of PSC Staff Recommended
Miscellaneous Revenues

Line	Item	Billing Determinants (1)	Present Rate (2)	Present Revenue (3)	Proposed Rate (5)	Proposed Revenue (6)
1	Connection Charge	2,843	$0.00	$0	$35.00	$99,505
2	Reconnection Charge	1,339	$35.00	$46,865	$35.00	$46,865
3	After Hours Connection/Reconn. Charge	568	$60.00	$34,080	$60.00	$34,080
4	Seasonal Reconnection Charge 1/	945	$0.00	$0	$12.00	$11,340
5	Field Collection Charge	760	$17.00	$12,926	$17.00	$12,926
6	Returned Payment Charge	493	$20.00	$9,860	$20.00	$9,860
7	Change of Account	7,446	$0.00	$0	$17.00	$126,582
8	Failed Trip Charge	113	$0.00	$0	$35.00	$3,955
9	Total			$103,731		$345,113

Source: PSC-BK-19

1/ Seasonal Customer Charge only; Revenues computed using PSC Staff's recommended RS-H customer charge.